SB 1463 SD1 – RELATING TO TAXATION

Chairs Dela Cruz and Rhoads, Vice Chairs Keith-Agaran and Wakai, and members of the committees:

The University of Hawai‘i offers the following comments with amendments on SB 1463 SD1.

Economists around the world have definitively established that applying a carbon price - the amount that must be paid for the right to emit one ton of CO2 (equivalent) into the atmosphere - is the most effective way to reduce greenhouse gas pollution and a critical component to any suite of climate change mitigation policies.

We have known since the 19th Century that burning fossil fuels increases the amount of heat-trapping carbon dioxide and other greenhouse gases. In the 1940’s and 50’s, the work of Guy Stewart Callendar revealed that indeed the atmosphere was getting warmer. Now we have accumulated so much scientific evidence of the damaging effects of these emissions that much of humanity is mobilizing to take meaningful action. Hawai‘i has become a leader in this movement and we must maintain our leadership to help ourselves.
However, despite this growing awareness, the world remains on an emissions pathway leading to 1.5°C warming by 2030, and 2°C by 2045. Over the next 2 decades, global growth in the demand for new energy is likely to be met by a combination of renewable energy and fossil fuels. Although renewable energy is being deployed at an explosive pace, it currently constitutes only 4% of the global energy mix. Under the U.S. Energy Information Administration base-line scenario, it does not rise to more than 25% by 2040. In this scenario, energy-related fossil fuel emissions rise 16% by 2040. This continued rise in greenhouse gas emissions puts us on a pathway to 3-4°C warming by the end of the century. This is a devastating prospect.

Heat stress, severe impacts to the natural world, a broken ocean, failure of food systems, drought, water scarcity, out-of-control sea level rise, and large populations of migrant humans all become prevalent characteristics of life on Earth.

The recent IPCC Special Report “Global Warming of 1.5°C” states that, “Explicit carbon prices remain a necessary condition of ambitious climate policies” (Chapter 4). The State of Hawai‘i Legislature last year passed a law aiming to achieve carbon neutrality by 2045. Putting a price on carbon is essential to achieving this goal.

The important key feature of Senate Bill 1463 is the establishment of an economy-wide tax on carbon. While we appreciate the notion of it being “revenue neutral,” our suggestion is that this should not be implemented via a reduction in fuel taxes. The proposed carbon tax is not sufficiently high to merit substitution with other fossil fuel taxes, as it would serve to actually lower motor fuel prices. This would be counter to the goal of reducing fossil fuel usage.

We urge the committee to revise the bill. We suggest:

1) Keeping the element that replaces the Environmental Response, Energy and Food Security Tax with a Carbon Emissions Tax levied on all fossil fuels.
2) Adding a mechanism to increase the level of the tax on an annual or bi-annual basis (by approximately $10/MTCO2eq), continuing until carbon emissions reduction goals are achieved. This should incorporate an adequate assessment mechanism; for example, an evaluation completed after two years of implementation that also assesses future rates.
3) Omitting the substitution with other fuel taxes.
4) Achieve revenue neutrality (adjusting for current uses of the Environmental Response, Energy and Food Security Tax that provide critical expertise on technology deployment) through a dividend mechanism to Hawai‘i's households or through lowering the income tax burden to low-income households.

Thank you for the opportunity to testify.